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IN THE THIRD JUDICIAL DISTRICT COURT  
SALT LAKE COUNTY, STATE OF UTAH

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The Attorney General, the Commissioner of  
Financial Institutions, and the Division of  
Consumer Protection of the State of Utah,

Plaintiffs,

v.

HOUSEHOLD INTERNATIONAL, INC.  
a Delaware corporation,

Defendant.

COMPLAINT FOR INJUNCTION,  
RESTITUTION AND OTHER  
EQUITABLE RELIEF

Civil No:

Judge:

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Plaintiffs, the Utah Attorney General, the Commissioner of Financial Institutions, and the Division of Consumer Protection of the State of Utah, bring this action pursuant to the Utah Consumer Credit code, the Utah Consumer Sales Practices Act, and the common law powers of the Attorney General to bring actions in the public interest to enjoin wrongs which threaten or cause injury to the health, safety and welfare of persons and property in the State of Utah. Plaintiffs seek, among other things: a permanent injunction, an order compelling Defendant to

pay restitution to consumers, attorneys' fees and costs, and an order reforming contracts between Defendant and Utah consumers.

### JURISDICTION AND PARTIES

1. The Attorney General's authority to bring this action is derived from the Utah Consumer Credit Code, § 70c-1-101 et seq., the Utah Consumer Sales Practices Act, § 13-11-1 et seq., and the statutory authority of the Attorney General to enjoin illegal conduct, § 67-5-1(13), Utah Code Ann.

2. Defendant Household International, Inc., a Delaware corporation, and/or its direct and indirect subsidiaries, affiliates, officers, directors, employees, agents, related entities, successors, and assigns (collectively, "Household"), at all times mentioned herein, have transacted business within the State of Utah County of Salt Lake. The violations of law alleged herein were committed throughout the State of Utah and in the County of Salt Lake. Venue is proper in this district under Utah Code Ann. § 78-13-7.

### GENERAL ALLEGATIONS

3. In the ordinary course of business, direct or indirect subsidiaries of Household Finance Corporation ("HFC"), a subsidiary of Defendant Household International, Inc., have negotiated and entered into real-estate secured loans with consumers in the State of Utah. These real estate secured loans were made from or at Household's retail lending branches during between the period January 1, 1999 through September 30, 2002 (the "Covered Transactions").

4. State attorneys general and state financial regulators in this state and in other states have received and investigated complaints and conducted examinations concerning the Covered Transactions. Those complaints and investigations related to Household's conduct with respect to the following practices (collectively, "the Lending Practices"):

A. Two real-estate secured loans made at or near the same date to the same consumer (“split loans”, or “loan-splitting”): Plaintiffs allege that such loans were made through unfair and deceptive means, including, but not limited to, misrepresentations or omissions concerning the number of loans, misrepresentation of the benefits of refinancing and debt consolidation with the high-cost split loans; use of the second loan as a result of the high amount of points and fees financed as part of the primary loan; and as a means to make high loan-to-value mortgage loans which had the effect of preventing borrowers from seeking to refinance with lower rate lenders.

B. Loan points and origination fees: Plaintiffs allege that Defendant failed to provide timely and adequate information to borrowers concerning the amount and purpose of the putative “discount” or “buy-down” points and fees imposed on their loans, including, but not limited to, failing to provide meaningful early disclosures as required by law, 24 C.F.R. 3500.7.

C. Misrepresentation of interest rates: Plaintiffs allege that Defendant misrepresented the interest rates to be charged on loans through such means as using a “low-ball” rate purporting to be an “effective” rate or an equally deceptive term. Such misrepresentations and omissions occurred in the context of Defendant’s attempting to disguise a high-rate mortgage as a low-rate mortgage through use of (for payment of an additional fee) a bi-weekly payment plan. Defendant failed to inform consumers that accelerated principal reduction occurred through making extra payments, instead misleading consumers into thinking the savings were attributable to lower interest charges than the loans provided for. Additionally, misleading comparisons were made between rates on existing debts which applicants were considering refinancing or consolidating, and the rate(s) to be charged on Defendant’s proposed loan or loans.

D. Monthly payment amounts: Plaintiffs allege that Defendant failed to inform consumers that higher payments, rather than lower rates, were the feature of the bi-weekly payment program which would result in overall savings in finance charges. Further, in making sales presentations with respect to refinancing and debt consolidation applications, Defendant made misleading comparisons of monthly payment obligations between existing debts and the proposed new loan or loans to be made by Defendant.

E. Single premium credit and other insurance product: Plaintiffs allege that Defendant engaged in a pattern of “insurance packing,” including, but not limited to, misleading consumers as to the voluntary nature of the insurance, the price of the insurance, and the benefits and/or term of the insurance.

F. Prepayment penalties: Plaintiffs allege that Defendant engaged in a practice of misleading consumers about the presence of prepayment penalties on their loans, and imposed prepayment penalties in violation of state law.

G. Unsolicited loans offered through an unsolicited negotiable check that the consumer can accept by endorsing and depositing or transferring the check (“live checks”): Plaintiffs allege that Defendant used “live checks” as a “bait” to make high-cost mortgage loans; used misleading representations; and failed to adequately inform consumers that the unsolicited check was a loan.

H. Practices with regard to home equity lines of credit: Plaintiffs allege that Defendant extended what was in substance closed-end credit disguised as open-end credit with the intent to avoid making meaningful disclosures concerning the payment terms, such as the existence of large balloon payments. Plaintiffs further allege that Defendant extended what was in substance closed-end credit with APRs in excess of 10% over the US treasury rate for comparable maturities, which Defendant disguised as open-end

credit to evade the requirements of the Home Ownership and Equity Protection Act, 15 U.S.C. § 1639.

I. Loan billing practices relating to simple interest calculations: Plaintiffs allege that Defendant's practices by which payments were credited to accounts on the basis of the number of days between payments frequently resulted in situations in which scheduled payments were insufficient to pay accrued interest, creating a shortfall in interest ("interest short"), which resulted in excess finance charge costs for borrowers. Such shortfalls could occur even when payments were not late. Defendant further made representations concerning the opportunity to "skip a payment" without informing consumers that doing so would result in "interest short" situations. Defendant failed to provide borrowers with material information necessary to avoid such extra charges.

J. Balloon payments: Plaintiffs allege that Defendant extended credit to borrowers on terms that would eventually require balloon payments, without disclosing to borrowers the existence or amount of the balloon payments.

K. Payoff information: Plaintiffs allege that Defendant failed to provide timely payoff information, which impeded borrowers' efforts to seek refinancing elsewhere.

L. Non English language documentation: Plaintiffs allege that Defendant engaged in unfair and deceptive practices by failing to provide meaningful descriptions of loan terms to non-English-speaking borrowers.

M. Net tangible benefit in loan refinancing: Plaintiffs allege that Defendant engaged in the practice of refinancing its own or other loans, thereby imposing additional fees and costs, where the new loan provided no net tangible benefit to the consumer.

## COUNT I

### UTAH CONSUMER SALES PRACTICES ACT

5. Plaintiffs reallege and incorporate by reference the allegations of Paragraphs 1 to 4 of this Complaint.

6. Defendant, through its direct and indirect subsidiaries, engages in consumer transactions within the meaning of the Utah Consumer Sales Practices Act, § 13-11-1 et seq., Utah Code Ann. by making loans to consumers in the “sub-prime” mortgage loan market. Defendant advertises, offers, solicits sales of, and sells real estate secured loans and related goods and services to Utah consumers.

7. Defendant, through its direct and indirect subsidiaries, engaged in the business of making loans to Utah consumers that were secured by those consumers’ homes. Defendant used misleading and deceptive promotions, marketing and sales techniques to induce primarily low and moderate-income homeowners to refinance their mortgages and consolidate their debts using Household’s real-estate secured loan products.

8. In the course of its dealings with consumers and in furtherance of its own direct pecuniary and business gains, Defendant committed deceptive acts, or made misrepresentations or omissions in violation of the Utah Consumer Sales Practices Act, § 13-11-4.

## COUNT II

### UTAH CONSUMER CREDIT CODE VIOLATION

9. Plaintiffs reallege and incorporate by reference the allegations of Paragraphs 1 to 8 of this Complaint.

10. Defendant, through its direct and indirect subsidiaries, engages in consumer credit transactions within the meaning of the Utah Consumer Credit Code by making loans to consumers in the “sub-prime” mortgage loan market. Defendant advertises, offers, solicits sales

of, and sells real estate secured loans and related goods and services to Utah consumers.

11. Defendant, through its direct and indirect subsidiaries, engaged in the business of making loans to Utah consumers that were secured by those consumers' homes.

12. In the course of its dealings with consumers and in furtherance of its own direct pecuniary and business gains, Defendant committed deceptive or unfair practices in connection with consumer loans made in Utah. Defendant's violations included: imposing prepayment penalties on closed-end consumer debt in violation of §70C-3-101, failing to permit consumers to refinance balloon payments as required by §70C-3-102, imposing delinquency charges not permitted by §70C-3-103, improper practices in selling credit insurance on consumer loans under §70C-6-103 and §70C-6-108, and engaging in fraudulent or unconscionable conduct in inducing consumers to enter into consumer credit transactions as proscribed by §70C-8-107.

WHEREFORE, Plaintiff prays for judgment as follows:

A. Pursuant to Utah Code Ann. § 70c-8-107, § 13-11-17, and § 67-5-1(13), that Defendant, its direct and indirect subsidiaries, affiliates, officers, directors, employees, agents, related entities, successors, and assigns, and any and all other persons who act under, by, through, or on behalf of Defendant be permanently restrained and enjoined from the following:

(1) Making or disseminating any misleading unfair or and deceptive representations in violation of the Utah Consumer Credit Code or the Utah Consumer Sales Practices Act, relating to the marketing or sale of loans to consumers.

(2) Doing any of the wrongful acts referenced in this Complaint or any other act in violation of § 70C-1-101 et seq. or § 13-11-1 et seq., relating to the business of making retail residential loans to consumers.

- B. That Defendant make restitution to consumers.
- C. That Plaintiff be awarded its attorney's fees and costs, or other appropriate recompense available under state law.
- D. That the Plaintiff be awarded such other and further relief as the Court deems just and proper and equitable under the circumstances.

DATED This \_\_\_\_\_ day of December, 2002.

MARK L. SHURTLEFF  
Attorney General of Utah  
WAYNE KLEIN  
Assistant Attorney General

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By: Wayne Klein

Attorneys for Plaintiffs  
The Attorney General,  
The Commissioner of Financial Institutions  
The Division of Consumer Protection of  
The State of Utah